



DEPARTMENT OF CHILDREN AND FAMILIES

OFFICE OF INSPECTOR GENERAL INTERNAL AUDIT

Enhancing Public Trust in Government



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Christopher Hirst, Inspector General

Project #A-1112DCF-111

Audit Report

July 17, 2012

Client Trust Funds – ChildNet, Inc.

Summary

In accordance with the Office of Internal Audit's fiscal year (FY) 2011-12 annual work plan, we conducted an audit of client trust funds¹ administered by ChildNet, Inc.², the lead agency for community-based care (CBC)³ in Circuit 17. ChildNet assumed responsibility for administering client trust funds on July 1, 2004. The audit examined whether internal controls to protect client trust funds have been implemented, focusing primarily on expenditure documentation. In addition, tests were performed to determine if client trust fund expenditures were appropriately planned and budgeted.

During the audit, we identified and brought to management's attention opportunities for improving purchase documentation. A noted concern is the challenges created by the issuance of checks to individuals and the lack of receipt documentation. ChildNet also has implemented some noteworthy processes through the use of automated systems and processes.

Background

Through its contract with the Department, ChildNet coordinates, integrates, and manages a system of supports and a comprehensive array of foster care and related services for eligible clients, including client trust funds. Client trust funds comprise resources such as Supplemental Security Income (SSI), other types of Social Security Administration (SSA) benefits, and other third party contributions. ChildNet is subject to all of the same rules and regulations followed by the Department and must provide to SSA an accounting of its use of benefits and savings when requested.

Generally, children who meet SSA's definition of disability, and whose income and resources fall within eligibility limits, are eligible to receive monthly SSI federal benefits. When clients are unable to manage funds, SSA approves and appoints a representative payee to manage benefits paid to clients. To meet this obligation in Circuit 17, ChildNet serves as the (organizational) representative payee and acts on behalf of clients as the receiver of SSI and

¹ Chapter 402, Florida Statutes (F.S.), authorizes the Department to accept and administer in trust, in accordance with fiduciary standards while protecting the state's financial interest, any money or other property received for the personal use or benefit of clients.

² According to its website, ChildNet is the private, not-for-profit organization created to manage the child welfare system in Broward County (Circuit 17). ChildNet directly provides case management, independent living and adoption services.

³ Community-Based Care (CBC) is a comprehensive redesign of Florida's Child Welfare System. It combines the outsourcing of foster care and related services to competent service agencies with an increased local community ownership of service delivery and design.

SSA benefits to ensure that the payments are used first for basic needs and then to provide a more stable living environment. Other third party payments may be deposited in a client's account, as well. The representative payee maintains clients' SSI, SSA, and other funds in a "current needs" and/or "dedicated" account or an investment account.

SSI and SSA funds received on behalf of clients are assessed a "maintenance fee," which offsets the clients' cost of care and is required to be sent to the Department within 30 days of receipt. Funds disbursed to pay for residential care (maintenance fees or room and board) meet the clients' current needs. These costs are based on minimum rates set by the Legislature or enhanced rates agreed upon with foster parents or with a residential facility. Remaining funds should be used for the benefit of the client and may be disbursed for, but not limited to, medical expenditures, therapeutic equipment, clothing, recreation, transportation, personal items, home furnishings, certain living and other miscellaneous items.

As a general rule, clients' maintenance costs may not be recovered from "dedicated" account funds once these funds have been deposited. Deposits into the "dedicated" account should be those specific lump sum payments received from the SSA. These funds do not count toward the client's resource limit and will be available to the client upon leaving the care of the Department or upon meeting other criteria defined by the trust document unless written instructions from the SSA state otherwise.

The dollar value and number of client trust funds fluctuate throughout the fiscal year. Statewide, as of June 30, 2011, the Department and lead agencies managed client trust fund accounts for 2,082 clients. "Current needs" account balances totaled approximately \$2.1 million; "dedicated" account balances totaled approximately \$362,406; and approximately \$747,011 was invested in the State Treasury. Of the 2,082 clients, ChildNet managed accounts for 417 clients with a "current needs" balance of about \$486,431 and a "dedicated" balance of about \$76,291. ChildNet investment balance totaled \$417,091 of these funds.

Results

This was the first audit conducted by the Department's Office of Internal Audit of client trust funds administered by ChildNet since ChildNet assumed representative payee responsibility in July of 2004. We found opportunities for improvement related to ChildNet's purchase documentation. Plus, ChildNet has several commendable initiatives.

Purchase Documentation Revealed Improvement Opportunities.

According to ChildNet management, ChildNet has adopted and implemented the Department's client trust fund procedures. However, our review of client files revealed that ChildNet needs to reevaluate its implementation efforts with emphasis on expenditure documentation. The lack of sound internal controls for disbursements of client trust funds lessens assurance that SSI benefits were spent appropriately.

According to the Department's procedures, checks to purchase goods or services for the client should be made payable to the vendor where possible. However, when greater flexibility is needed, a check may be issued to an employee, group home operator, or care giver. Invoices, receipts, and unused funds must be returned to the fiscal office within ten (10) working days from issuance of the check. The deposit of unused funds should be properly documented. When repeated attempts to obtain original receipts from the responsible party have failed, the lead agency's fiscal office must adopt written procedures to address this issue.

Additionally, DCF Accounting Procedures Manual (Volume 7, Chapter 6) requires client trust fund documentation to be no less than that which would be necessary to process a payment through the State of Florida Chief Financial Officer's Office.⁴

We selected 100 withdrawal transactions that represented 52 individual client trust fund accounts and noted five conditions that needed management's attention and/or did not meet purchase documentation requirements. We noted:

- In 24 instances, receipt or invoice documentation was not maintained on file to support withdrawals. When documentation is unavailable to support what funds were spent for, accounting staff cannot readily determine that the funds were spent as authorized.
- In three instances, items purchased did not match the withdrawal authorization (disbursement request).
- In eight instances, the check amount exceeded receipt documentation totals, indicating unspent funds; however, these unspent amounts had not been deposited to the client's account. ChildNet management indicated that it does not pursue unspent amounts less than \$10.
- In seven instances, receipt documentation exceeded the check amount, indicating additional funds were needed to make the entire purchases; however, these additional amounts were not withdrawn from the clients' funds. Or, additional purchases for others were unmarked on the receipts.
- Original receipts were not always provided and accepted as documentation. Originals increase accountability for purchases made on behalf of clients.

We selected 45 client transactions to review cancelled checks. Generally, we observed that ChildNet rarely wrote checks to vendors. From this sample, ChildNet wrote only one check (two percent) to a vendor. Additionally, we tested 29 of these sample items to compare the payee to Florida Safe Families Network (FSFN) documentation. We determined that 28 of these were written to caregivers, case workers, group home operators, or clients. One \$4,050 check was authorized to pay a landlord but was not supported by receipt documentation.

ChildNet handles the case management function in-house – it is not contracted out. In this model, case managers should play a lead accountability role as it relates to expending trust funds. According to ChildNet management, although they were aware that certain individuals had not submitted purchase documentation for some withdrawals, they continued to write checks to these individuals in order not to deprive the client of current needs. We noted however, as mentioned in the following finding, that ChildNet has follow-up procedures in place via an automated process to contact the payees who still have outstanding receipts. However, the (December 2011) Delinquent Receipts Report included checks issued as far back as July 2010 for which there were outstanding receipt documentation. Continuing to write checks to individuals with outstanding receipt documentation limits the effectiveness of this process. The Disbursement Request form includes the following statement, "receipts are due in the Finance Dept. within 10 days. No additional funds will be released until receipts and surplus funds are returned..."

We recommend that management provide training to responsible staff and implement appropriate review procedures to ensure that the type errors itemized in the findings are eliminated.

⁴ §69I-40.002 Florida Administrative Code (F.A.C.), mandates that "All invoices must be original invoices. If the original invoice is not available, a duplicate of the invoice shall be maintained by the agency provided the agency has determined that the invoice has not been previously paid. The duplicate invoice must be labeled "original invoice not available – agency records show that this obligation has not been previously paid." This statement must include the original signature of the person making the determination.

To increase accountability for purchases made on behalf of clients, we recommend that ChildNet management redesign its client trust fund withdrawal process to make case managers the responsible party for making purchases with client trust funds. Instead of writing checks to the case managers, we also recommend that ChildNet establish the use of purchasing cards for case managers to purchase items for clients. In addition, we recommend that ChildNet establish sign-out procedures for the cards and hold case managers accountable for the return of the card along with applicable receipt documentation to the accounting office within a specific minimum number of days. This practice would eliminate the variances observed between checks and receipts and the need to write checks to so many individuals and compensate for control issues. ChildNet can then reimburse itself for purchases made. We recommend that ChildNet incorporate these standards into job performance.

We recommend that management ensure the original receipts are submitted for supporting documentation. Requiring that original receipts be submitted within 24 hours of making purchase may augment this requirement. In cases where receipt copies must be submitted, certification should be obtained that the originals have not or will not be submitted for supporting documentation.

Until ChildNet improves its receipt documentation process, we also recommend that ChildNet management ensure that the correct amounts are returned to the applicable clients' accounts within specified time periods when the submitted receipt documentation is less than the written check.

ChildNet has taken initiatives to improve accountability, efficiency, and effectiveness.

According to ChildNet's Chief Financial Officer and staff, the lead-agency has implemented several initiatives to improve performance and make it more efficient. ChildNet has taken the initiative to:

- Maximize interest income for clients. As of June 30, 2011, ChildNet had the largest invested balance in the State Treasury of all lead agencies - investing approximately 74 percent (\$417,091) of its combined current needs and dedicated funds client balances;
- Use Microsoft Dynamics software to automate the process of posting deposits, withdrawals, and interest income to clients' accounts;
- Use an automated process developed in-house to notify case workers, foster parents, and clients when receipts are delinquent;
- Use an automated process developed in-house to notify case workers to spend down client SSI accounts exceeding \$1,300;
- Make client balance and transaction reports available online on its Resource Links intranet website to help case workers manage client accounts.

Such innovative use of automation allows technology to fulfill mundane duties and allows staff to be more effective and efficient.

Purpose and Objective

In accordance with the Office of Internal Audit's FY 2011-12 annual work plan, we conducted an audit of ChildNet's client trust funds. This lead agency was selected for review to determine

whether the necessary and appropriate safeguards to protect client trust funds have been established.

Scope and Methodology

This audit focuses primarily on expenditure documentation for FY 2010-11. It also examines the planning and budgeting of clients' funds to ensure accounts remain within acceptable limits while meeting the needs of the clients.

To meet our audit objectives and determine the extent of compliance with expenditure documentation requirements, we performed the following:

- judgmentally selected 72 client trust funds managed by ChildNet for review. This sampling included 45 cancelled checks made payable to caregivers, case workers, or clients to make purchases;
- collected information through review of Department procedures, state laws, SSA guidelines, and discussions with staff from the Office of Financial Management and Family Safety, other lead agencies, and ChildNet; and,
- reviewed the ad hoc Detailed Transaction Report, other bank documentation, general ledgers, purchase documentation, FSFN reports and other documentation deemed necessary.

Acknowledgements

The Office of Inspector General would like to thank the management and staff of ChildNet and the Department's Family and Community Services Program Office for their assistance with this audit.

Management's Response

In accordance with Section 20.055(5) (d), F.S., Management's response to the preliminary and tentative audit findings is included as an attachment to this report.

Inspector General's Comments

Recommendations 2 through 5 describe a potential course of action for ChildNet to improve internal controls established to document client trust fund purchases. Based on the response to our findings and recommendations, we believe that the corrective actions might not reduce the material instances or mitigate the risk to an acceptable level. We encourage additional oversight by ChildNet to minimize this risk. Follow-up to this report will include a review of purchase documentation.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. The audit was conducted by Elton Jones under the supervision of Jerry Chesnutt, Director of Auditing, (850) 488-8722. This report is available on our website: http://www.dcf.state.fl.us/admin/ig/pubs_ia.shtml

**RESPONSE TO OFFICE OF INSPECTOR GENERAL
PRELIMINARY AND TENTATIVE FINDINGS ON AUDIT OF**

CLIENT TRUST FUNDS - CHILDNET

NOTE: ChildNet submitted the following action plan via email as its response to our preliminary and tentative findings. We reformatted it from legal size to fit the scale of this report. ChildNet's management stated "The attached represents the response to ChildNet's Client Trust Audit findings for the fiscal year 2011-12."

Findings	Action Plan	Date Completed
<ul style="list-style-type: none"> ➤ In 24 instances, receipt or invoice documentation was not maintained on file to support withdrawals. When documentation is unavailable to support what funds were spent for, accounting staff cannot readily determine that the funds were spent as authorized. 	<p>Steps to improve the accountability of client funds: 1. A letter will be attached to the Client Trust Fund check informing the recipient of the requirements of the usage of the check. 2. A written reminder will be sent to the recipients for outstanding receipts on the 5th day after issuance and an email will be sent to the Child Advocates, their supervisors and Directors, the Vice President of Clients Services, and the Finance Director informing them of the outstanding receipts. 3. Client Trust Supervisor will participate in the training sessions informing Child Advocates of the Client Trust methodologies and will have each trainee sign an acknowledgement form.</p>	
<ul style="list-style-type: none"> ➤ In three instances, items purchased did not match the withdrawal authorization (disbursement request). 	<p>A written justification from the recipient on the reason for the change in items purchased is required with the receipt. A new Client Trust Fund withdrawal authorization is needed with the proper approvals (Child Advocate and Supervisor etc.) if there is a change in the usage of funds.</p>	
<ul style="list-style-type: none"> ➤ In eight instances, the check amount exceeded receipt documentation totals, indicating unspent funds; however, these unspent amounts had not been deposited to the client's account. ChildNet management indicated that it does not pursue unspent amounts less than \$10. 	<p>Require all unspent funds under \$5 be returned to the ChildNet's Finance Department. The Finance department will decline additional client withdrawal authorizations if the funds are not returned.</p>	
<ul style="list-style-type: none"> ➤ In seven instances, receipt documentation exceeded the check amount, indicating additional funds were needed to make the entire purchases; however, these additional amounts were not withdrawn from the clients' funds. Or, additional purchases for others were unmarked on the receipts. 	<p>Recipient of client funds did not request the additional funds and they are aware the client may not have the balance available to reimburse them therefore no action is required.</p>	
<ul style="list-style-type: none"> ➤ Original receipts were not always provided and accepted as documentation. Originals increase accountability for purchases made on behalf of clients. 	<p>Receipts are emailed to ChildNet Finance as part of the process of maintaining an electronic record. This process ensures that those receipts are received timely. No additional action required.</p>	